

# **The BIPARTISAN RETIREMENT SECURITY ACT**

## ***A Comprehensive, Bipartisan Plan to Save Social Security***

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### **KOLBE-BOYD STRENGTHENS RETIREMENT SECURITY FOR LOW- INCOME WORKERS**



The Bipartisan Retirement Security Act restores the solvency of the Social Security trust fund in a way that not only protects low-income workers from any reduction in benefits, but it actually strengthens the safety net provided by the Social Security program. The Kolbe-Boyd plan makes changes in the benefit formula, which offer stronger poverty protection than provided under current law and boost the replacement rates for low-income workers. The plan also provides a subsidy to supplement the individual accounts of low-income workers. Finally, by addressing the unfunded liabilities of the Social Security without shifting new obligations onto general revenues, the Kolbe-Boyd plan reduces the pressure to lower funding for other government programs that benefit low-income populations.

- **Strengthens the safety net through a new minimum benefit provision.** The Bipartisan Retirement Security Act contains a minimum benefit provision that will enable Social Security to lift more of the elderly out of poverty than current law. Under Kolbe-Boyd, no individual who works a full career will have to retire in poverty. Currently, nearly 8 million seniors receive benefits that are less than the poverty level.

An individual who has worked for 40 years and qualified for 40 years of coverage will be guaranteed a Social Security benefit equal to 120% of the poverty level. The minimum benefit would be calculated without regard to any other benefit changes, thereby shielding low-income recipients from adverse effects of other measures taken to restore the Social Security system to solvency and offset the cost of individual accounts. Any income from the individual accounts would supplement this guaranteed benefit. Widows/widowers would be covered by the minimum benefit guarantee based on his or her spouse's work history.

The example below illustrates the power and effectiveness of the improved government safety net. For a low-wage worker, the minimum benefit provision increases retirement income by more than 10% -- not including any balances that would accrue in the worker's personal account.

### **Example: Impact of the Minimum Benefit Provision on a Low Wage Worker**

Low wage worker earning 45% of the National Average Wage \$12,600 / yr

#### *Current Law Social Security benefit*

Social Security Benefit at Normal Retirement Age:	\$568
Plus: Spousal Benefit (if applicable):	<u>\$284</u>
Equals: Total Monthly Social Security Benefit:	\$852

#### *Social Security Benefit under Kolbe-Boyd*

Poverty Level for a single-person household over age 65	\$7,525
Translated into a monthly benefit (divide by 12)	\$627
Plus: Spousal Benefit (if applicable)	<u>\$314</u>
Equals: Total Monthly Social Security benefit	\$941

Kolbe-Boyd increase over current law benefits: \$89 /month, 10.4%

**Note: this amount does not include any balances that accrue in the workers personal account. Consequently, total benefits will be higher**

- **Boost replacement rates for low and moderate income workers.** Gradually phase in an actuarially neutral change in the replacement rates in the Social Security benefit formula to increase the progressivity of the guaranteed benefit. This change in the benefit formula will assist low-income workers who do not benefit from the new minimum benefit.
- **Shield disability and survivors benefits from changes in benefit formula.** The changes in the defined benefit formula would not apply to disabled workers until they convert to retired worker status at the normal retirement age. When a disabled individual converts to retired worker status and gains access to their individual account, their defined benefit would be adjusted based on the changes in the formula for retirement benefits, modified to reflect the smaller number of years the worker was able to contribute to an individual account before becoming disabled. Similarly, survivors would be eligible for the same fraction of the retired worker's benefit as under current law
- **Expanded savings opportunity for low-income workers.** The individual accounts in the Bipartisan Retirement Security Act will give low and moderate income workers the opportunity to benefit from investment opportunities that higher income workers already have with 401(k) plans, IRAs and mutual funds. The plan would direct 3% of the first \$10,000 in earnings into individual accounts and 2% of additional earnings above \$10,000 up to the wage cap. As a result, the contributions to individual accounts would be proportionally larger for low-income workers.
- To help low-income workers take advantage of this new savings vehicle the Kolbe-Boyd plan provides a savings subsidy, or "match" for low-income workers who make voluntary contributions to their individual account. A maximum of \$600 per individual is allowed per year. To qualify for the subsidy in any given year, an individual must earn less than \$30,000 per year and make at least \$1 in voluntary contributions to their personal account.

**Reducing pressure on other budget priorities.** The Kolbe-Boyd plan will put the costs of the Social Security system on a more sustainable level that will protect other programs that benefit low-income families and prevent them from being squeezed out by the growing costs of the Social Security system. By honestly addressing the budgetary pressures created by the unfunded liabilities of the Social Security system, the Kolbe-Boyd plan ensures that future Congresses will have resources available to preserve funding for discretionary spending and other programs that benefit low-income families in addition to providing Social Security benefits.

The Kolbe-Boyd bill contains several provisions that would be beneficial to women. Most notable is the minimum benefit provision that creates a protection from poverty within the traditional defined benefit from Social Security. Anyone who has worked 40 years would receive a guaranteed benefit from Social Security equal to 120% of the poverty level, regardless of their earnings history. This benefit is phased in over time such that an individual is first eligible for the minimum benefit provisions if they have worked for at least 20 years. At 20 years, an individual is entitled to a minimum benefit equal to 80% of poverty. Each year worked in excess of 20 years entitles the individual to an additional 2%, maxing out at 120% for 40 years of work. If a retiree's regularly computed benefit is higher, they would receive the higher benefit. Individuals would be entitled to the minimum benefit regardless of the balance in their personal account. Moreover, the minimum benefit would be calculated without regard to any benefit changes, thereby shielding low-income workers (traditionally women), from the reductions in the defined Social Security benefit.

The minimum benefit provision in the Kolbe-Boyd bill will provide a more robust guaranteed benefit than what is afforded by current law. As a result of this provision alone, 50% of women and 10% of men will do better under the Kolbe-Boyd plan than under current law. The provision is so strong that it effectively makes the personal accounts a "bonus" for low-income workers.

The Kolbe-Boyd plan also permits annual voluntary contributions to a personal account. Workers may contribute an additional \$2,000 per year to their personal account. Women who expect to take time off to raise children can make voluntary contributions both before and after their hiatus to "catch up" for the years of lost earnings.

For women who earn less than \$30,000, the Kolbe-Boyd plan provides a savings subsidy. For the first \$1 voluntary contribution, an eligible worker will receive a \$150 match from the federal government. Each additional dollar is matched 50% up to a cap of \$600 per year. For eligible workers who are unable to contribute voluntarily, the plan allows them to redirect a portion of their Earned Income Tax Credit (EITC) into their personal account to qualify for the savings match. Not only does the Kolbe-Boyd plan provide an opportunity for low income workers to save for their retirement, but it establishes a mechanism as well -- something most other plans do not do.

Lastly, the Kolbe-Boyd plan makes two important changes in the calculation of a beneficiary's primary insurance amount (PIA) -- changes that would substantially benefit women. First, the Kolbe-Boyd plan includes ALL years of earnings in the numerator of the PIA formula. Currently, Social Security calculates an individual's PIA by averaging the highest 35

years of earnings. Thus, the formula is: SUM(35 highest earnings years) DIVIDED BY 35. The net effect of including all years in the numerator is an increase in an individual's PIA. Second, although the Kolbe-Boyd bill would phase in an increase in the computation period from 35 to 40 years, the bill allows lower-wage earners in a two-earner family to drop five years, reducing their computation period to 35 years (i.e. no change from current law).

One of the reasons the Kolbe-Boyd bill will be a better deal for women is the changing nature of divorce. Current law stipulates that if a marriage lasts 10 years or more, a woman is entitled to 50% of her ex-spouse's Social Security benefit. Unfortunately, not only has the divorce rate skyrocketed since 1935 when Social Security was first adopted, but marriages also are not lasting as long. Two or more decades ago, divorces were fewer and occurred after 15-20 years of marriage. Today, divorces are more likely to occur in the fourth or seventh year of marriage. Moreover, more and more women are not re-marrying. As such, many women are heading into retirement alone and without the benefit of a spouse's Social Security income. Current law does not account for this changing demographic and many more women will retire with less security under current law than women of past generations.

As more and more women are raising children alone and working in lower-paying jobs, all of these elements in the Kolbe-Boyd plan (the minimum benefit provision, the voluntary contributions, the savings subsidy, and the changes to the PIA formula) will do more to lift women out of poverty than current law Social Security.